



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: November 19, 2002

REPORT NO. RA-02-22
CMR-02-276

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Honorable Mayor and Members of the City Council
Docket of November 26, 2002

SUBJECT: Morena Vista Transit-Oriented Development Project

SUMMARY:

Issues - Should the Redevelopment Agency/City Council:

1. Authorize Redevelopment Agency staff to work with CityLink Investment Corporation to seek and secure additional funding and to negotiate an amendment to existing Cooperation Agreement with the Metropolitan Transit Development Board (MTDB) for the Morena Vista Transit-Oriented Development site in order to provide for undergrounding of power lines, and financial support for the public Park N Ride facility at the Morena Vista site; and
2. Authorize Agency staff, within reasonable financial parameters, to negotiate a Disposition and Development Agreement with CityLink Investment Corporation to provide Agency 20% housing set-aside funds to support development costs of proposed affordable housing units, and other funds to cover soil compaction and pre-development/entitlements costs; and
3. Direct the removal of the proposed round-about as a design consideration on Linda Vista Road and Napa Street in respect to CIP 52-430; and
4. Express its conceptual approval of a financing plan, including the modification of the Annual Allocation - Undergrounding of Utilities, San Diego Gas & Electric Company Allocation for 2003 Calendar Year by 1) removing the projects known as CCDC Area 1, Phase 2, Job 2 (Transmission Only) located on Union Street between Date to Ash and on

Beech Street between State and 4th, estimated at \$1,114,000; 2) the removal of the project known as Sorrento Valley Rd between an area south of Carmel Valley Rd and north of Oleandar, estimated at \$741,000; 3) the replacement of both of these projects with a project known as Morena Vista Transit-Oriented Redevelopment Project, estimated at \$2,000,000, these actions contingent upon California Public Utility Commission approval of the proposed Underground Surcharge Fund and receipt of funds, and directing staff to continue to refine the plan and to return to Council for approval.

Executive Director/City Manager's Recommendations –

That the Redevelopment Agency:

1. Authorize Redevelopment Agency staff to negotiate with CityLink Investment Corporation to seek and secure additional funding and to negotiate an amendment to existing Cooperation Agreement with the Metropolitan Transit Development Board (MTDB) for the Morena Vista Transit-Oriented Development site in order to provide for undergrounding of power lines, and financial support for the public Park N Ride facility at the Morena Vista site; and
2. Authorize Agency staff, within reasonable financial parameters, to negotiate a Disposition and Development Agreement with CityLink Investment Corporation to provide Agency 20% housing set-aside funds to support development costs of proposed affordable housing units, and other funds to cover soil compaction and pre-development/entitlement costs.

That the City Council:

1. Direct the removal of the proposed round-about as a design consideration on Linda Vista Road and Napa Street in respect to CIP 52-430; and
2. Expresses its conceptual approval of a financing plan, including the modification of the Annual Allocation - Undergrounding of Utilities, San Diego Gas & Electric Company Allocation for 2003 Calendar Year by 1) removing the projects known as CCDC Area 1, Phase 2, Job 2 (Transmission Only) located on Union Street between Date to Ash and on Beech Street between State and 4th, estimated at \$1,114,000; 2) the removal of the project known as Sorrento Valley Rd between an area south of Carmel Valley Rd and north of Oleandar, estimated at \$741,000; 3) the replacement of both of these projects with a project known as Morena Vista Transit-Oriented Redevelopment Project, estimated at \$2,000,000, these actions contingent upon California Public Utility Commission approval of the proposed Underground Surcharge Fund and receipt of funds, and directing staff to continue to refine the plan and to return to Council for approval.

Fiscal Impact – The potential additional financial contribution from the Redevelopment Agency to this project may be up to \$7,970,000 from North Bay tax increment revenue.

Environmental Impact – This activity is not a “project” and is therefore exempt from CEQA pursuant to the State CEQA Guidelines Section 15060 (c) (3).

BACKGROUND:

MTDB owns approximately six acres adjacent to its Morena/Linda Vista Trolley Station located at Linda Vista Road and Napa Street. In 1997, MTDB in cooperation with the City approved an RFP/RFQ process to encourage transit-oriented development, generate revitalization of the surrounding area, and create an additional revenue stream for public transit. MTDB entered into a DDA and negotiated a lease agreement in April 2000 with CityLink Investment Corporation. Under these agreements, MTDB retains ownership of the parcel and leases it on a long-term ground lease basis to the project developer. The ground lease is unsobordinated. The project, Morena Vista Mixed-Use Project was originally proposed to include approximately 24,000 square feet of commercial space, 127 residential units and 396 on-site parking spaces. A Sav-on Drugs Store had also been secured as an anchor tenant at that time. Additionally, 120 off-site parking spaces adjacent to the project along Friars Road were proposed.

On February 8, 2000 the Redevelopment Agency entered a Cooperation Agreement (RR – 292752/D – 03107/R - 0310) with MTDB, under which the Agency would fund the undergrounding of 69 KV and smaller power lines as a public improvement for preparation of MTDB’s site. That Agreement stipulated that the Agency would make \$450,000 in up front payments to MTDB, followed by \$1,575,000 spread over 16 years from project-generated tax increment, a total contribution not to exceed \$2,025,000. Under this Cooperation Agreement, the Agency has already made payment of \$58,194 to MTDB in order to have SDG&E begin design work for the undergrounding.

In May of 2000 the City of San Diego began analysis to construct a ‘modern roundabout’ at the intersection of Linda Vista Road and Napa Street, which is the prime corner in the Morena Vista Project. It became apparent that the proposed roundabout would require the inclusion of land included in the project design. The project was delayed and tentatively re-designed around the proposed new site boundaries while the round-about issue was unsettled for a period of nearly three years.

The current development plan of the Morena Vista Project includes 161 apartment units and 18 lofts. Sixteen, or 10%, of the apartments, if directed by City Council, could be made available as affordable housing units. Retail space would be approximately 18,500 square feet with no anchor tenant. Eighteen lofts are situated above the retail space. There are 80 Park N Ride spaces on-site and 120 off-site. This parking is required by the developer’s agreement with

MTDB and to assist in filling area parking needs related to citywide special events. Total development cost is estimated to be \$38 million.

The base ground rent charged by MTDB is \$150,000 per year, reduced from the initially proposed \$340,000 per year. An additional overage rent of one percent was negotiated on the base of the effective gross income after one year. Also, a rent payment of two point one five (2.15) percent of the effective gross income above a base of \$3.0 million was included. After lengthy discussions between MTDB and Agency staff, the MTDB agreement with the developer has been adjusted to reflect the change in economic costs of the project. The MTDB modification of the participation formula reflects increased project-generated assessed value and their effort to help fill the project's financial gap. The assessed value of the project upon completion is now estimated to be \$32 million, up considerably from the previous estimate of \$17.8 million. Of this, 1% or \$325,000 will represent current tax increment revenue.

DISCUSSION:

The proposal contains exemplary features that are important as a catalyst to the revitalization of the immediate area. It represents a regionally significant transit-oriented development (TOD) design, which is desired as a "smart growth" concept. Given the project location, the mix of residential and commercial as well as parking for the trolley station, the project represents a viable approach to creating a strong development presence to enhance and improve the Napa/Linda Vista commercial value.

With the proposed roundabout concept no longer viable, MTDB and the developer have approached the Agency requesting additional financial assistance in order to close the project's funding gap. The Land Use and Housing Committee discussed this matter at its October 23, 2002 meeting and, by a vote of 5-0, referred it without recommendation for consideration at a November City Council meeting. In addition, there exists a North Bay Redevelopment Project Area Environmental Impact Report (EIR), completed in 1998. MTDB also completed site-specific environmental review on the trolley station in 1991, as part of its Final Mission Valley West Light Rail Transit EIR. The Morena Vista Project implements the goals of the Linda Vista Community Plan and the North Bay Redevelopment area. The Community Plan and zoning provides for the project with a discretionary permit.

The estimated cost of undergrounding is \$2,025,000 after the estimated equivalent overhead credit of \$315,000, and the estimated cost for the soil compaction is \$2,300,000. In addition, in order to accommodate recent City Council priorities for increasing the amount of available affordable housing units, the project will require a housing subsidy, based on the inclusion of 10% (or 16) of units at 80% of Area Median Income (AMI).

	<u>Up Front</u>	<u>Annually</u>	<u>Years of Payment</u>	<u>Total Potential Agency Exposure</u>	<u>Probable Source</u>
1 Undergrounding of power lines (Cooperation Agreement with MTDB)	\$2,025,000	---	---	\$ 170,000	Citywide 20A and existing Bond proceeds
2 Park N Ride Project support (Cooperation Agreement with MTDB)	\$ 300,000	\$300,000	9	\$3,000,000	New Bond proceeds and/or TI
3.1 Disposition and Development Agreement with CityLink					
Soil Compaction	\$ 500,000	\$100,000	18	\$2,300,000	Existing and new Bond proceeds and/or TI (80%)
Pre-Development/Entitlement	\$ <u>500,000</u>	<u>\$100,000</u>	5	<u>\$1,000,000</u>	
Total before affordable housing	\$3,325,000	\$500,000		\$6,470,000	
Affordable housing agreement for 16 units	<u>\$ 1,500,000</u>	--		<u>\$1,500,000</u>	New Bond proceeds and/or TI (20%)
Total including affordable housing	\$4,825,000	\$800,000		\$7, 970,000	

The proposed public contribution still includes the \$2,025,000 for the undergrounding of power lines originally agreed upon in the Cooperation Agreement between the Agency and MTDB. This contribution would be paid in full up front from city-wide 20A utilities undergrounding funds (\$1,855,000) and existing tax allocation bond proceeds (\$170,000) under an amended Cooperation Agreement with MTDB instead of as planned previously (\$450,000 up front and the remaining amount – up to a total of \$2,025,000 out of Morena Vista project tax increment over a period of 15 years). Approximately \$3,200,000 in unexpended bond proceeds (80% funds) remains from the October 2000 issuance. Based on North Bay Project Area acreage, approximately 21% is within Council District 6, and 79% in District 2. Bond proceeds are allocated on a pro rata share basis according to that formula.

Most recent estimates for soil compaction costs to address liquefaction at the Morena Vista site are \$2.3 million. This cost could be covered through a DDA between the Agency and CityLink. Further, it is projected that a new bond could generate additional net proceeds (80% funds) of \$6 million. Since site preparation costs relate to soil compaction, rather than remediation, the project is not eligible for Polanco Act funding. Funding for the undergrounding, the soil compaction, and affordable housing could come out of North Bay bond proceeds, keeping in mind, however, that much of the bond proceeds (both 20% set-aside and the remaining 80% funds) have already been identified for other projects in North Bay (see Attachment 3). While

few of these projects have actually been implemented, diverting additional money to Morena Vista might necessitate reducing other Project Area priorities.

In order to off-set the cost of including Park N Ride spaces in Morena Vista and financial impacts due to the round-about delay, CityLink has asked for \$300,000 up front and \$300,000 annually to be paid from the Agency via the City of San Diego to MTDB. The Morena Vista Project is estimated to generate approximately \$325,000 per year in new tax increment revenue to the Agency. CityLink has suggested capping the \$100,000 annual payment from the larger Project Area TI at ten years (totaling \$1 million) with the remaining \$200,000 annual payment from project TI to continue.

If 10% of the residential units were set aside for affordable housing, \$1.5 million of 20% set aside money is requested to fill the gap to finance those 16 units, bringing the total up front amount to approximately \$4,825,000.

On October 28, 2002 the Linda Vista Community Planning Committee reviewed the most recent plans for the Morena Vista Project without the roundabout as presented by CityLink. The Committee voted 12-0-1 to reaffirm their support for the project without comment on funding sources, except to note during discussion that any money left in the CIP budget for the Napa Street and Linda Vista Road intersection be retained for traffic remediation and not be contributed to the Morena Vista Project. The Committee also supported moving 40 additional Park N Ride spaces off site.

The North Bay Project Area Committee (PAC) had an opportunity at a special PAC meeting on November 1, 2002 to voice its recommendation on a revised financial participation of the Redevelopment Agency. They will also see the latest revisions to the Morena Vista Project design when the designs are ready for presentation. After lengthy discussion, the PAC voted 6-yes, 1-no, 6 abstentions on a motion not to recommend the contribution of any additional North Bay Redevelopment funding to this project, but recognized the existing \$2,025,000 obligation already committed through the Cooperation Agreement with MTDB for the undergrounding of 69 KV power lines. In January 2000, the PAC had voted to recommend entering the existing Cooperation Agreement between the Agency and MTDB for the undergrounding of power lines (10-yes, 3-no, 1-abstention). The Linda Vista Civic Association on November 5, 2002 voted unanimously to support the project in its current form.

A total of \$13.0 million in North Bay Redevelopment Tax Allocation Bonds, Series 2000, were issued in October 2000 for project area improvements and need to be expended by October 2003. Currently, approximately \$3.2 million in unused funds from this issuance remain, with an additional \$2.3 million in 20% low/mod set aside funds. These are tax-exempt bond proceeds with certain associated use restrictions related to public benefit. Findings have already been made for the undergrounding of the 69KV power lines.

CONCLUSION:

After reviewing the financial options given above that would assist MTDB and CityLink in moving forward with the Morena Vista Transit-Oriented Development Project, the Redevelopment Agency/City Council may choose to authorize the negotiation within the parameters contained in this Manager's Report of any or all of the described agreements for the contribution of legally available North Bay Project Area and other funds. Please note that any and all negotiated or renegotiated agreements and associated documents will, of necessity, come back to the Agency/Council with final documentation and details for review and consideration before implementation.

Respectfully submitted,

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Deputy Director Redevelopment

Hank Cunningham
Assistant Executive Director,
Redevelopment Agency/Director,
Community and Economic
Development

Approved: Bruce Herring
Deputy City Manager

JRD/nc/cm

Attachments: 1. Morena Vista Rendering
2. Morena Vista Site Plan
3. [North Bay Bond Project List](#)
4. [North Bay Redevelopment Project Area Cash Flows](#)